ACROSS the BOARD

A Bulletin to Assist, Educate, Encourage and Communicate with Volunteer Board Members

BUILDING BOARD SKILLS

Financial Management of Health Centers

Board members come from a wide variety of experiences and backgrounds – consumer, legal, healthcare, marketing, manufacturing, administration, blue collar, white collar, and just about any other background one can imagine. Just as board members are diverse in experiences and backgrounds, so are the skills and talents that each board member brings to the table, to help in the governance of the health center.

Board members of health centers assume significant responsibilities, including the management of the financial viability of the health center. One responsibility that sometimes seems intimidating to those without the formal training is working with the financials of a health center. It can seem overwhelming at first, dealing with budgets and statements of cash flow and auditor's reports. But, as complex as it appears, board members need to learn the basics of financial management, so they can be a full party in the governance of the center.

Board members need to be able to understand the financial condition of the center in order to be able to make decisions, and to protect the center's financial future. In this issue, we will look at some of the responsibilities that board members have for the financials for health centers. These responsibilities include:

- Protection and preservation of assets
- Maintenance of the tax-exempt status of the FQHC
- Accurate financial reporting to the public, third-party payers, lenders, and others
- Providing financial direction and oversight of the FQHC

As many board members have little, if any financial background, it becomes the dual responsibility of the board member and management to ensure that appropriate education and information is available to allow board members to fulfill their financial responsibilities.

There are several reasons why financial oversight by board members is necessary. BPHC PIN 98-23 – BPHC Program Expectations – covers fiscal management of health centers, and specifies that the governing Board is responsible for the efficient, effective and financially sound operation of the health center.

Changes in the governance environment due to financial mismanagement of some corporations and non-profits has raised the issue of board governance to the national level, as evidenced by problems

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Inside

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Financial Management of Health Centers

that surfaced at Enron, WorldCom, and United Way. Although the Sarbanes-Oxley Act passed by Congress applies to publicly traded companies, some states are now looking at these issues in the nonprofit world as well (see accompanying article – Implications of Sarbanes-Oxley).

In addition, the Office of Inspector General 2004 Work Plan, in a statement on financial capabilities of community health centers, notes that the OIG expects to work with HRSA to review financial management systems of prospective grantees before funds are awarded, to determine whether potential grantees have adequate accounting and reporting guidelines.

As a board member, there are 3 basic questions to ask yourself:

1. **What do I need to know about my health center's finances?**
2. **What financial information should the Board be provided?**
3. **What questions should a board member ask about the health center's financial position?**

What Do I Need To Know About My Health Center's Finances?

Board Member Financial Orientation

All health care providers, including FQHCs, should provide new board members with initial training on the operations of the organization. This initial education program should encompass many items including, but not limited to:

- Operating documents (Articles, bylaws, etc.)
- Organizational responsibilities
- FQHC programs generally and the specific programs offered by the FQHC
- Governmental requirements, including corporate compliance, HIPAA, etc.
- Personnel policies and procedures
- Finances, including reimbursements and reporting

This initial orientation provides the foundation for ongoing financial assessment and understanding by the board member. The stronger the foundation, the more effective the board member will be in working with management to accomplish operational and financial objectives.

Protection and Preservation of Assets

The FQHC holds numerous assets including cash, receivables, inventories, property and equipment, and intangibles, which include patient records, goodwill, and others. It is the responsibility of the Board to ensure that policies and procedures are in effect that provide for the appropriate handling and use of these assets.

The policies and procedures should be addressed in an "Accounting Policies and Procedures Manual"; however, most FQHCs have not required formal policies and procedures to be developed. Accordingly, policies and procedures are generally the result of historical processes updated as a result of the skills of internal financial staff and comments provided by external parties, including independent certified public accountants.

The protection and preservation of assets is dependent on the quality of these policies and procedures (written or in general practice) combined with the integrity and skill of both internal financial personnel and external certified public accountants. Board members can exercise responsibility through the following:

1. Designating a group of board members to function as a Finance Committee, thereby appointing a few members to focus on financial issues and report to the entire Board. The Finance Committee members must commit themselves to additional time for the purpose of gaining additional education and experience with the finances of the FQHC.
2. Designating the Finance Committee as the Audit Committee or separately identifying an Audit Committee to accept certain responsibilities regarding contracting for and accepting reports from an independent certified public accounting firm as well as monitoring accounting controls of the FQHC.
3. Separately engaging a certified public accounting firm to provide a written report on internal accounting controls on a periodic basis.
4. Requiring the independent auditors to report directly to the Board regarding internal control items identified as a result of the annual audit process. This reporting would include providing the Board with copies of all correspondence between the auditor and management relating to issues relating to internal controls.
5. If an Accounting Policies and Procedures Manual does exist, any changes to the manual would be reviewed by the Finance Committee (or Audit Committee) for acceptance.

6. Gaining an understanding of financial reporting and financial reports of the FQHC to facilitate questions of management as part of the ongoing financial monitoring process.

Maintenance of the Tax-Exempt Status of the FQHC

The tax-exempt status of the FQHC is imperative. However, a tax-exempt entity can conduct activities unrelated to the tax-exempt purpose of the entity, pay income taxes, and not be at risk regarding its tax-exempt status.

Certain issues become important in the maintenance of the FQHC's tax-exempt status and, accordingly, these issues need to be continually monitored by the Board through management reporting to the Board.

- Transactions between the FQHC and related parties
- Amount of charity care provided by the FQHC
- Contractual arrangement with physician providers
- Relationships with other entities
- The nature and significance of activities conducted that are unrelated to its tax-exempt purpose

Board members should be provided with copies of tax-exempt informational filings and management should be available to address any questions that the members may have regarding the information contained in the filings.

Accurate Financial Reporting-External

FQHCs report financial and operational information in the form of audited financial statements, Medicare and Medicaid cost reports, tax-exempt filings with the IRS and/or state agencies, grant sources, and others.

The accuracy of these financial filings is critical to the FQHC to ensure appropriate reimbursements for services rendered, compliance with conditions of participation in the Medicare/Medicaid programs, meeting the requirements of the IRS and state agencies, reporting appropriate use of grant funding, meeting the needs of lenders and potential lenders, and providing information for the public oversight of the tax-exempt entity.

The Board, along with management, is responsible for the accuracy of these reports; however, most FQHCs rely heavily on the skills of their independent auditing firm and others regarding these reports. The following are imperative with regard to external reporting:

1) The Board should be educated regarding the nature of the financial reports, the users of the financial information, and the due dates for all reports. Likewise, management should continually inform the Board regarding the status of such reports and filings.

2) Management should directly report to the Board regarding all financial reports issued that were internally prepared. This reporting should include a summary of the report and any issues arising relating to those reports.

3) For those reports audited by external CPAs or prepared by other consultants, the CPA or consultant should report directly to the Board or appropriate committee of the Board regarding the report, providing sufficient information as to report findings and comments worthy of Board attention and understanding. The Board should be provided ample time for any questions to ensure their understanding of the significant aspects of the reports.

4) The Board, or committee thereof, must recognize the importance of securing outsiders, when the use of outsiders is necessary, that possess appropriate skills and experience in the performance of services

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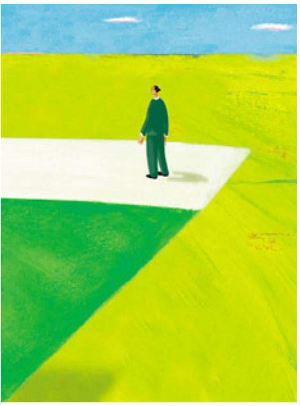
Financial Management of Health Centers



on behalf of the FQHC. Although such skilled persons may charge more for the services rendered than others, they generally provide greater value to the services rendered and, equally important they can provide comfort to the Board in the performance of the Board's responsibilities for financial reporting.

5) External reports should be prepared on a timely basis – meaning that all reports should be prepared by their respective due dates and audited financial statements should be completed as soon as possible after the end of the fiscal year. Financial information that is six months old has reduced usefulness and any problems identified are not resolved in a timely manner.

Accurate Financial Reporting – Internal

The importance of external reporting is easily recognized; however, the accuracy of internal financial reporting (reporting continuously throughout the year) to management and the Board is equally important. It is the budgeting process and monthly financial reporting process that provides the basis to make management decisions regarding financial operations.

2 What Financial Information Should The Board Be Provided?

This question is largely dependent on the nature of the activities conducted by the specific FQHC; however, the following are generally consistent for all FQHCs.

1) Monthly financial statements should be available to the Board no later than thirty (30) days after the end of the month to which they relate.

2) The monthly financial statement should include the balance sheet (statement of financial position), summary statement of operations (income statement) for unrestricted funds and temporarily and permanently restricted funds, if applicable. Likewise, statements of operations should be prepared for each operating site, if multiple sites exist, and also by service activity, if multiple services are being provided, e.g. radiology, WIC, maternal-child health services, dental, etc.

3) Monthly financial statements should compare actual results to budgeted results with variances explained by management.

4) Revenues and expenses of operations should be reported in a manner relating to units of service (encounters, etc.). For example, the reporting of cost per-encounter is important in the assessment of operations, comparison to other service providers, and understanding relationships between revenues (reimbursements) and costs.

5) Supplemental information should be provided with the monthly financial statements including accounts receivable aging by payor source, thereby facilitating a continuous evaluation of the effectiveness of credit and collection polices of the FQHC. Other supplemental information may include a summary of investments and returns thereon, monitoring amounts of charity care provided, and other information deemed important for review at the Board level.

6) Reporting certain key ratios to facilitate monitoring of management's effectiveness for managing finances and trends of importance to the FQHC. These would include:

a) Current ratio (current assets/current liabilities) – The current ratio is a monitor of liquidity of the FQHC (ability to pay obligations as they become due)

b) Days of net patient revenues in net patient receivables – The number of days of net patient revenue that are outstanding is an indicator of credit and collection policies as well as enables the FQHC to monitor payments by various vendors.

c) Debt to equity ratio – The amount of debt to equity is an indicator of leverage (borrowing capability).

7) Reporting related party transactions to the Board, noting the nature of the related party transaction and amount of the transaction, for continuous monitoring.

8) Annual budgets sixty (60) days before the beginning of the year thereby allowing discussion and modification, if necessary, prior to the beginning of the fiscal year.

The Board should be actively interested in the nature and format of the financial information that they are provided. Securing the financial information needed to manage is dependent on the Board's request for information from management. Likewise, board members should ask questions to ensure that finances are being given appropriate attention by management and that management is aware of those activities that drive the financial results of the FQHC.

Corporate Compliance Responsibilities

The U.S. Department of Health and Human Services encourages all health care providers to develop and maintain a corporate compliance plan for the purpose of monitoring its operations for compliance with applicable laws and regulations. These compliance plans compliment and enhance the financial reporting of the FQHC.

Compliance plans provide for ongoing assessment of numerous components of financial activities in addition to non-financial activities. The financial activities specifically addressed in a corporate compliance plan include billing for services rendered, relationships with physicians, vendors and employees, quality and timeliness of reporting, and general ethical elements of financial activities.

The development and maintenance of a corporate compliance plan, even one covering only basic elements of operations and finance, serves the Board well in its financial responsibilities.

3 What Questions Should A Board Member Ask About The Health Center's Financial Position?

At the end of the day, the board member should ask the questions that will help them become comfortable in knowing the following information:

1) The FQHC has sufficient cash, or will have sufficient cash, to meet its financial obligations, both in the short-term and longer-term.

2) The FQHC has established an appropriate fee schedule based on the nature and cost of the services provided.

3) The FQHC has established and follows appropriate credit and collection policies to ensure that payments are pursued and collected, charity care policies are appropriately followed, and contractual arrangements with third-party payors are sufficient based on the nature and costs of services provided.

4) The FQHC is billing appropriately for services rendered that meet covered service requirements of Medicare and Medicaid programs in addition to those of other third-party payors.

5) Inventories, property, and equipment are sufficiently controlled to ensure that the assets are appropriately used to the benefit of the FQHC.

6) Obligations to vendors are paid appropriately and timely and that management attempts to secure goods and services of appropriate quality and reasonable cost.

7) Employees are paid at reasonable rates for services provided and all employee benefits are paid timely to vendors and governmental agencies.

8) Employee benefit programs are those of importance to employees, comparable to other competitors for employees, and within the financial capabilities of the FQHC.

9) Vendor, including physician contracts are consistent with regulatory requirements and represent relationships necessary to the FQHC.

10) Contracts with third-party payors reflect the nature and cost of the services provided.

11) Charity care policies and procedures are consistent with the mission and intent of the FQHC; however, such policies and procedures do not threaten the economic existence of the organization.

12) Management is continually assessing financial operations and presenting the Board with the information necessary to effect short-term management and long-term planning.

13) Outside auditors and consultants should be an effective component of the quality of the FQHC's financial oversight, while maintaining their independence and objectivity. These vendors should continually communicate issues of importance to management and the Board.

14) The FQHC is in compliance with federal and state requirements for participation in Medicare, Medicaid, and other relevant programs.

15) The FQHC is in compliance with obligations and requirements of grantor organizations and contributors.

16) Transactions with related parties are necessary and are reasonably priced thereby not providing excess financial benefit to the related party.

Board members comfortable with the items identified above have taken significant steps in fulfilling their responsibilities with regard to FQHC financial management.

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BUILDING BOARD SKILLS

The Sarbanes-Oxley Act: What it Means for Health Center Board Members

"Corporate responsibility" has become a watchword since the well-publicized financial scandals involving Enron, WorldCom, Health South, Arthur Andersen, and others. Unfortunately, news accounts of wrongdoing in nonprofit and charitable organizations compel the conclusion that abuse is not confined to the for-profit sector. No nonprofit organization is immune from the risk of potentially embarrassing, and perhaps legal, problems resulting from inattention to internal governance issues.

Corporate responsibility financial scandals liability accountability

Congress enacted the American Competitiveness and Corporate Responsibility Act of 2002[1], better known as the "Sarbanes–Oxley Act," specifically to impose significant new governance, accountability, and disclosure responsibilities on publicly traded companies that are under the jurisdiction of the federal Securities and Exchange Commission (SEC). Among other requirements, Sarbanes-Oxley and the SEC's implementing regulations require publicly traded corporations to adopt a code of ethics for their senior financial officers and chief elected officers (or to disclose the fact that they have not adopted such a code, and explain why), to make certain financial disclosures, including reporting on their internal financial controls, which must be certified by the chief executive officer and chief financial officer, and to strengthen the role of their audit committees, including having at least one member of the committee who is a "financial expert."

Sarbanes-Oxley applies only to the largest for-profit corporations. However, many of its features are likely to spill over to the nonprofit sector either as voluntary standards of practice or as mandatory requirements.

Indeed, in 2003 legislation was introduced in New York that would have essentially imposed Sarbanes-Oxley type requirements on all nonprofit organizations operating in the state with annual revenue of $250,000 or more. While the proposed legislation was later modified and has yet to be enacted, other states may well follow New York's lead and enact legislation that imposes new reporting and governance requirements on their nonprofit organizations. In fact, many state laws already give the attorney general significant oversight authority over nonprofits operating in the state, particularly with regard to charitable fundraising. Therefore, it may not be necessary to enact new legislation in order for states to impose additional requirements on nonprofits in the name of corporate responsibility. In addition, the IRS is considering whether to revise Form 990 (the annual information return filed by tax-exempt organizations) to elicit information as to whether or not an organization has adopted a conflict of interest policy and corporate responsibility measures, and has indicated that it intends to publish a list of suggested "good practices" for all tax-exempt organizations.

In sum, health centers, like other nonprofit organizations, would be well advised to implement "corporate responsibility" measures of some sort, if they have not already done so. Pressure to do so may come from external sources, such as regulatory bodies, and internally from board members or prospective board members concerned about potential personal liability.

[1] 15 U.S.C. § 7201 et seq.

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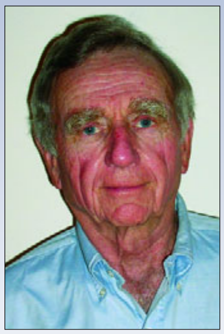

Fred Kramer

Center served: North Woods Medical Cooperative in Spooner, Wisconsin

Years on board: Nine

Office held: President and Vice President

Profession: Retired Dean of Students, McAlister College

Member tip: Become fully engaged. Don't just attend meetings but think about and study the issues. Encourage honest dialogue.

Though **Fred Kramer** retired early and moved to a peaceful retirement spot, his golden years have been anything but quiet. In 1981, at the age of 55, Kramer left his position as a college administrator to move to Spooner, Wisconsin, a small town in the northwest part of the state.

For the next three years, he and his wife, Joan, built an energy-efficient solar home with an attached greenhouse. The energetic couple also worked to help start a Lutheran church in the Spooner area. Social issues have always been a concern of his and he found that much of his church family felt the same. "We realized that one of the most important social concerns to our nation is providing adequate health care for the underserved. We suspected that more quality healthcare was needed in the area, so we decided to do a survey of the actual need."

Indeed, health care was and continues to be an issue in the sparsely populated area, where most people are older than average and many have low incomes. It's also a town where small manufacturing, logging, and tourism are the biggest industries, and where roads are poor and winters are extreme. During the course of his survey, Kramer met with the executive director of the North Woods Medical Cooperative in Minong, where he had been going for health care.

North Woods, which has operated since 1980, now serves 5,700 users and has about 20,000 medical encounters each year at two centers, one in Minong and the other about 20 miles away in Hayward, in bordering Sawyer County. Medical facilities in the area are few and far between and the survey turned up no real surprises. However the executive director did identify one more need, that having Fred Kramer on the North Woods board of directors would be beneficial. By the mid-1990s, Kramer had accepted a position on the board.

In his three terms, Kramer has served as the board's president and vice president. He also helped with the opening of a third center, the A and H Center, in Burnette County. Although no longer in operation, that center served 5 years meeting the needs of the local community.

Though he will step down from the board after his current term, Kramer plans to remain active as a volunteer to assist with strategic planning.

Wilton Simpson

Center served: Premier Community Health Group in Trilby, Florida

Years on board: Three and a half

Office held: Chairman

Profession: Business owner

Member tip: Don't forget what we're here for, especially when we have to make what seems like a harsh decision. We are part of something that is bigger than the board.

Wilton Simpson is a "go-getter." He owns an egg farm with a million chickens, a remodeling business that employs 20 people, is married with two children, serves as president of the local Farm Bureau, vice president of the Pasco County Fair board, and is on the board of a local charter school.

"My dad used to say if I wanted to be successful, I would have to work a half day every day," says the 37-year-old resident of Trilby, Fla. "You can do the math; a half day is 12 hours." So every day Simpson's day planner is full, and because his time is limited, he is thoughtful about the type of volunteer work he does. That's why he was glad to be invited to serve on the Premier Community Health Group board of directors, where he now serves as chairman. "I realized this is where I can have the largest impact on the largest number of people," he says. "There is a tremendous need to help those who are uninsured and underinsured."

Premier, which recently changed its name from Health Resource Alliance of Pasco, was founded in 1979. Located about 35 miles northeast of Tampa, it has three centers in a county with about 300,000 people. Last year, nearly 11,000 users had some 49,000 encounters at the three centers. Many of the users are "snow birds", people who move to Florida in the winter to escape the freezing temperatures at their northern homes. About one-third are either African-American or Hispanic, including a large number of migrant workers.

Simpson says that even though community health centers are non-profit agencies, they can be run efficiently by applying sound business principles to their management. It's a fairly simple formula, he says. "You look at labor, equipment, and material and match up your costs and revenues, then analyze them, he says. We realize that some things we do we are going to lose money. But that's not the point. The point is to at least know where those areas are so we can manage them. When you understand your costs, you can control them. Our goal is to grow and actually become profitable. When you become profitable, you can put more funds back to where they are needed – towards helping the uninsured and underinsured."

Simpson says the center's 12 member board is strong and works well with the new chief executive officer. They are

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Resources

Interested in learning more? Here are some resources that may be of help as you study financial issues for your health center:

Financial Responsibilities of the Nonprofit Board

By: Andrew S. Lang

Part of the BoardSource Governance Series, this resource covers the basics of what board members need to know about their financial responsibilities. This edition teaches board members the importance of financial integrity and solvency, safeguards and procedures to protect the organization, and signs of financial trouble. An excellent primer for new board members and a good resource for experienced board members.

Available from: www.boardsource.org

Understanding Nonprofit Financial Statements

By: Steven Berger, CPA

In these tough economic times it is important that board members not only understand the organization's financial statements but also ensure that adequate resources are available and effectively managed. The newly revised and expanded edition of this best-selling title includes key accounting terms and concepts, important benchmarking ratios, and sample nonprofit financial statements with explanations. Author Steven Berger's no-nonsense explanations are helpful for board members, treasurers, finance committee members and staff who prepare financial information for the board. This resource is also part of the BoardSource Governance Series.

Available from: www.boardsource.org

Step-by-Step: Nonprofit Financials A Four-Part System of Board Member Fiduciary Responsibility

By: Various Authors

All you need to know about nonprofit financials now comes in one box. Step-by-Step: Nonprofit Financials is a four-part system that includes every aspect of a board member's fiduciary responsibility. Titles include: Understanding Nonprofit Financial Statements; Accountability: The Buck Stops Here; The IRS Form 990: A Window Into Nonprofits; and Minding the Money: An Investment Guide for Nonprofit Board Members.

Available from: www.boardsource.org

Presenting: Nonprofit Financials An Overview of Board Fiduciary Responsibility

By: Thomas A. McLaughlin

The board's fiduciary responsibility is often one of the most intimidating aspects of board service. BoardSource has created Presenting: Nonprofit Financials to help teach board members their financial responsibilities in an easy-to-understand manner. This on-screen presentation contains four parts that can be used in parts or as a whole, depending on the needs of your board.

Available from: www.boardsource.org

Corporate Compliance Resource

An Integrated Approach to Corporate Compliance: A Resource for Health Care Boards of Directors

By: HHS OIG and American Health Lawyers Association

The HHS Office of Inspector General has posted to its website an educational resource developed jointly with the American Health Lawyers Association to assist health care organizations' boards of directors in carrying out their compliance oversight responsibility. This publication addresses the roles of the in-house corporate general counsel and an organization's chief compliance officer in supporting the compliance oversight function of health-care organization governing boards. A PDF version of this publication is available for download at:

http://oig.hhs.gov/fraud/complianceguidance.html#2

and at: http://www.healthlawyers.org/oigahla/index2.cfm

PROFILE *(continued from page 7)*

Wilton Simpson

all in agreement when it comes to the center's direction. "We don't want to be known as the health clinic of last resort," he says. "We want to be the center of choice. We are working to change our image in the community and our new name is a step in that direction."

We've changed our look!

Let us know what you think, we'd like to hear your input on this and future issues of *Across The Board*

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